

Message Text

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ACTION EUR-12

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TAGS: EXIM, EFIN, EINV, ETRD
SUBJECT: INITIAL CALL ON MINISTER OF FINANCE MOMCILO CEMOVIC,
JULY 26, 1977

REF: (A) BELGRADE 4609, (B) STATE 168813, (C) STATE 170635

SUMMARY: FIN MIN CEMOVIC AND AMBASSADOR DISCUSSED GAMUT OF US/YUGOSLAV

ECONOMIC RELATIONS. CEMOVIC ACCEPTED INVITATION OF SECRETARY BLUMENTHAL TO MEET HIM IN WASHINGTON IN SEPTEMBER (REF. C) AND INVITATION OF EXIM CHAIRMAN MOORE TO DISCUSS SUPERGUARANTEE QUESTION (REF. B). CEMOVIC WOULD PREFER, HOWEVER, TO MEET ON SUPERGUARANTEES IN BELGRADE WITH EXIM TEAM IN EARLY SEPTEMBER TO ATTEMPT RESOLVE THIS ISSUE BEFORE HE GOES TO WASHINGTON. END SUMMARY.

1. CEMOVIC EXPLAINED SOME OF THE FUNCTIONS OF HIS MINISTRY AND GAVE ME AN OVERVIEW OF OUR BILATERAL ECONOMIC RELATIONS. HE FEELS OUR TRADE BALANCE IS REASONABLY GOOD BUT BELIEVES, AS I DO, THAT THE TOTAL VOLUME OF OUR TRADE SHOULD BE LARGER. LIKE MOST YUGOSLAV ECONOMIC LEADERS, HE EXPRESSES APPRECIATION FOR THE TECHNICAL

QUALITY OF U.S. EQUIPMENT AND CONSIDERS IT ESSENTIAL TO YUGOSLAVIA'S CONTINUED DEVELOPMENT. WE DISCUSSED IMPROVEMENT IN THE OPERATIONS AND SCOPE OF THE U.S.-YUGOSLAV ECONOMIC COUNCIL AS A CLEARING
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HOUSE AND EXPEDITOR OF INFORMATION BETWEEN U.S. AND YUGOSLAV BUSINESSMEN.

2. CEMOVIC BROUGHT UP TWO MAJOR PROBLEMS WHICH ARE DISTURBING OUR ECONOMIC RELATIONS:

(A) SUPERGUARANTEES: BECAUSE YUGOSLAVIA HAS IN THE PAST GRANTED

SUPERGUARANTEES TO U.S. EXIMBANK, OTHER LENDERS (CANADA, JAPAN) HAVE PUT PRESSURE ON GOY TO COVER THEIR LOANS AND GUARANTEES WITH A NATIONAL BANK SUPERGUARANTEE. CEMOVIC WENT ON TO SAY THAT THE NEW FOREIGN EXCHANGE LAW MADE THE SUPERGUARANTEE NO LONGER POSSIBLE. FYI: THE NEW LAW DOES NOT FORBID THE ISSUANCE OF THE NATIONAL BANK SUPERGUARANTEE -- BUT REQUIRES THE FEDERAL ASSEMBLY TO RATIFY EACH ONE. FOR PRACTICAL PURPOSES THE TIME CONSUMED IN THIS PROCESS COULD STALL ISSUANCE AS AGFERSIVELY AS AN OUTRIGHT PROHIBITION. END FYI.

(B) EUROCURRENCY LOAN CLAUSES;043;897)6, GOY HAD NO CONTROL OVER THE TERMS OF CONTRACTS YUGOSLAV BORROWERS SIGNED WITH FOREEIGN BANKS, BUT NEW LEGISLATION HAS GRANTED THIS AUTHORITY AND "WE HAVE DECIDED THAT THESE CLAUSES ARE NO LONGER ACCEPTABLE."

3. I TOLD CEMOVIC THAT OF ALL THE SECTORS OF OUR RELATIONSHIP THE ECONOMIC SPHERE WAS PROBABLY WORKING BEST, BUT RECENT YUGOSLAV ACTIONS (SUPERGUARANTEES AND LOAN CLAUSES) HAVE JEOPARDIZED THE FURTHER DEVELOPMENT OF OUR ECONOMIC RELATIONS. GOY MUST TAKE INTO ACCOUNT THE IMAGE OF RELIABILITY YUGOSLAVIA PROJECTS TO THE U.S. BUSINESSMAN WHEN LAWS AND REGULATIONS ARE ANNOUNCED ARBITRARILY WITHOUT PRIOR CONSULTATION; AND, ONCE PUBLIC, ARE NOT EXPLAINED TO THOSE DIRECTLY AFFECTED. FOR EXAMPLE, THE UNILATERAL ABROGATION OF THE YUGOSLAV SUPERGUARANTEE HAS EFFECTS BEYOND EXIM AND USG: GOY MUST REMEMBER THAT EXIM IS IN CONSTANT TOUCH WITH U.S. FIRMS AND BANKS, AND THAT ITS ATTITUDE TOWARD YUGOSLAVIA, THEREFORE, HAS IMPACT FAR BEYOND NARROW QUESTION OF WHETHER A LOAN IS GRANTED LIMITED OFFICIAL USE

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OR NOT.

4. CEMOVIC WAS PLEASED WITH THE INVITATION FROM SEC. BLUMENTHAL AND HOPED THEY WOULD BE ABLE TO TALK NOT ONLY ON FINANCIAL MATTERS BUT OVER THE FULL RANGE OF ECONOMIC PROLEMS AND COOPERATION. HE ADDED THAT HE WOULD LIKE VERY MUCH TO USG ARRANGE A MEETING BETWEEN THE NEWLY-APPOINTED GOVERNOR OF THE YUGOSLAV NATIONAL BANK KSENTE BOGOEV, WHOM HE WANTS TO BRING WITH HIM, AND FRB CHAIRMAN ARTHUR BURNS DURING THE SEPTEMBER IMF/IBRD MEETINGS. CEMAOVIC HOPES THAT HIS WASHINGTON PROGRAM CAN BE ARRANGED AND TRANSMITTED TO HIM AS SOON AS POSSIBLE.

5. CEMOVIC ALSO ACCEPTEFMCHAIRMAN MOOR'S INVITATION TO DISCUSS SUPERGUARANTEES. BUT HE SUGGESTED THAT A MEETING WITH AN EXIM TEAM IN EARLY SEPTEMBER TO TRY TO RESOLVE THE ISSUE WOULD BE USEFUL. HE INDICATED, HOWEVER, THAT IF THIS CANNOT BE ARRANGED, HE WOULD BE WILLING TO HOLD THE QUESTION OPEN UNTIL HE SEES CHAIRMAN MOORE IN WASHINGTON.

6. CEMOVIC WENT ON TO TOUR THE FINANCIAL HORIZON, PREDICTING THAT YUGOSLAV TRADE DEFICIT WOULD BE SOMETHING LIKE \$700 - \$800 MILLION IN 1977. (NOTE: JAN-JUNE FIGURES ALREADY SHOW

DEFICIT OF \$1 BILLION.) ACCORDING TO CEMOVIC, YUGOSLAV REPUBLICS AND FEDERAL GOVERNMENT HAVE GOTTEN TOGETHER TO LINK IMPORTS AND EXPORTS TO AVOID A WORSENING SITUATION. (THIS IS ESSENTIALLY THE SYSTEM BEGUN IN 1975 WHICH REQUIRES COUNTER TRADE IN YUGOSLAV EXPORTS TO BE GENERATED IN FIXED RATIO TO IMPORTS.)

7. CEMOVIC DEPLORED THE CURRENT DECLINE OF THE DOLLAR AND THE UPWARD MOVEMENT OF THE D-MARK. HE SAID THAT A GOOD DEAL OF YUGOSLAV TRADE, ESPECIALLY WITH AFRICA AND ASIA, IS DONE IN DOLLARS. THUS, IF THE DOLLAR CONTINUES TO DECLINE, YUGOSLAV EXPORTS WILL SUFFER. I GAVE CEMOVIC MY NON-EXPERT VIEW THAT THE DOLLAR WILL PROBABLY NOT DECLINE MUCH FURTHER, AND SUGGESTED HE DISCUSS THIS FURTHER WITH SECRETARY BLIMENTHAL IN SEPTEMBER.

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8. COMMENT: WOULD APPRECIATE PROPOSED PROGRAM FOR CEMOVIC ASAP SO WE MAY CHECK IT WITH HIM. WOULD ALSO APPRECIATE INDICATION WHETHER BURNS CAN SEE BOGOEV SO WE MAY PASS THIS ON.

9. I BELIEVE CEMOVIC PROPOSAL THAT TEAM BE SENT HERE IN EARLY SEPTEMBER TO DISCUSS SUPERGUARANTEE IS A WISE ONE. BUT I HAVE ALREADY EXPLAINED IN EXQUISITE DETAIL MY REASONING ON THIS QUESTION IN REF. A, SO I WILL NOT BELABOR THE ISSUE FURTHER.
EAGLEBURGER

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